



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.07

Required Report - public distribution

Date: 8/6/2003

GAIN Report Number: TW3026

Taiwan

Livestock and Products

Annual

2003

Approved by:

Jonathan Gressel
American Institute in Taiwan

Prepared by:

Eric Trachtenberg & Rosemary Kao

Report Highlights:

As the Taiwan economy recovers in 2003-4, beef imports are expected to grow from 2002 lows and U.S. market share will likely remain steady despite a major setback dealt by the SARS epidemic to restaurants, hotels and institutions (HRI), the primary consumers of U.S. beef. High prices in Taiwan will stimulate pork meat imports although the vast majority of consumption is supplied by local production. The local hog industry is not expected to contract quickly in the next few years due to continuing import controls on variety meats and a relatively cost-competitive domestic industry. However, some long-term contraction is expected. Demand for imported beef and pork variety meats will remain high.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Taipei [TW1]
[TW]

Table of Contents

Executive Summary	3
Beef	4
Production	5
Consumption	5
Trade	5
Beef Offals.....	6
Tariffs & Trade Policy	7
The Dairy Sector.....	8
Marketing	8
Swine	9
Production	11
Long-term Trends	11
Prices.....	12
Consumption	13
Trade	13
Products Entering Under TRQs	14
Policy	15
TRQ Regulations.....	15
Non-TRQ Duties.....	16
Special Safeguards	16
Sanitary Regulations	17
Checkoff Program	17
Cross-Straits Trade and Investment.....	17
Taiwan Swine Sector Investment.....	17
Marketing	18
Internet Resources	18

Executive Summary

As the Taiwan economy recovers in 2003-4, beef imports are expected to grow and U.S. market share will likely remain near historical averages despite a major setback dealt by the SARS (Severe Atypical Respiratory Syndrome) epidemic to restaurants, hotels and institutions (HRI). Early in 2003, imports of U.S. beef were up sharply as traders took advantage of favorable prices. By late spring, fears of SARS cut the HRI business by half, cutting deeply into U.S. beef consumption since most U.S. beef goes to the HRI sector. With SARS fears fading, imports should recover by early fall, especially as importers sell of their remaining stocks. U.S. beef should also benefit from stronger retail sales. The trend is expected to carry over into 2004, although forecast lower pork prices may influence demand at the margins.

The privileged tariff position of U.S. choice and prime beef will gradually be eroded as tariffs for all qualities of beef are equalized in 2004. Imports of beef variety meats were fully liberalized upon Taiwan's WTO entry. Without the cumbersome bidding for quotas and with lowered import tariffs, imports of beef variety meats should grow healthily in the coming years, though Australia and New Zealand are taking the largest market shares.

Pork meat imports depend mostly on Taiwan pig prices. High 2003 prices have been stimulating pork meat imports. The local hog industry is not likely to contract significantly in the immediate post-accession environment because of continuing import controls on variety meats and a relatively cost-competitive domestic industry. While the Council of Agriculture (COA) has predicted a medium-term, one million head decline in Taiwan's seven million head pig population as a result of WTO-related trade concessions, Post and most industry analysts believe the actual decline will be only half that. Contraction in domestic production and an anticipated increase in consumption may result in increased import demand for pork meat and offal in the medium-term. In the long term, the efficient pig industry will continue to produce pork for the local market, while imports will enter for processing or to supplement occasional shortfalls.

The demand for imported pork variety meats, which adds to the reduced local supply since the 1997 foot-and-mouth disease outbreak, is expected to remain strong for the foreseeable future. As Taiwan's current leading supplier of pork and pork offal, U.S. suppliers should benefit most from WTO market opening measures. Sanitary concerns are likely to keep key competitors, such as South Korea and Mainland China, off the market for several years.

Beef

Table 1. Taiwan Beef Production, Supply and Distribution

PSD Table						
Country	Taiwan					
Commodity	Meat, Beef and Veal					
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Slaughter (Reference)	0	27	0	27	0	27
Beginning Stocks	0	0	0	0	0	0
Production	5	5	5	5	0	5
Intra EC Imports	0	0	0	0	0	0
Other Imports	89	88	95	93	0	97
TOTAL Imports	89	88	95	93	0	97
TOTAL SUPPLY	94	93	100	98	0	102
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	94	93	100	98	0	102
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	94	93	100	98	0	102
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	94	93	100	98	0	102
Calendar Yr. Imp. from U.S.	18	18	19	20	0	21
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

The conversion factor used to derive the carcass weight equivalent (CWE) for beef in the above PSD table is 1.36. Beef variety meats imports are not included in the beef PSD table. The PSD table and Trade table include beef traded under HTS 0201 and 0202. Trade of processed beef, under HTS 021020 and 160250, are negligible (less than 300 mt).

Production

Domestic beef, mostly from culled dairy cattle, meets only 5 to 6 percent of Taiwan's total beef demand. Total production is not expected to change significantly in 2003 or 2004.

Consumption

Taiwan's ongoing economic recovery is expected to boost total 2003 beef consumption by 5 percent to 72,100 mt (98,000 mt CWE). In 2004, consumption is expected to increase further to 75,000 mt (102,000 mt CWE). This year, expectations of higher consumption growth were frustrated by the SARS outbreak. According to trade data, January to April imports were up almost 10 percent year to year but industry sources believe that shipments fell sharply from May onwards as SARS keep people from eating out or traveling. U.S. beef consumption was especially hard hit by the lack of business travel to Taiwan. As a result, restaurants lost between 50-60 percent of their business in the spring. In some of the hardest hit areas, business fell by 90 percent or more. Travel in Taiwan during the time period was down by 50-80 percent from previous levels. The only bright spot was a 25 percent boost in supermarket sales. U.S. beef exporters are making strong efforts to develop premium U.S. brands for major hypermarkets while also marketing less expensive cuts that compete effectively on both price and quality with other imported beef.

As Taiwan moves beyond its Spring 2003 SARS outbreak, beef consumption is expected to pick up in the later half year. Both leisure and business travel should recover since the World Health Organization removed the travel advisory for Taiwan in late June. In addition, consumption should also be buoyed by Taiwan's ongoing economic recovery. Although Taiwan's economic growth, forecast at 3.1 percent in 2003, lags behind the recent historical average of 5 percent, continued stability of the New Taiwan Dollar, increasing consumer purchasing power, and pent up demand should boost beef consumption. Consumption was not significantly affected by the discovery of Bovine Spongiform Encephalopathy (BSE) in Canada. Barring a major disruption to the market, like another serious SARS outbreak, consumption should grow steadily in 2004.

Trade

Total imports are estimated at 68,380 mt (93,000 mt CWE) in 2003 and 72,100 mt (98,000 CWE) in 2004 with U.S. beef exports at 14,705 and 15,440 mt (20,000 and 21,000 mt CWE), respectively. Since Taiwan imports 95 percent of its beef consumption, imports tend to move with closely with consumption except when stocks build up.

Imports from January to April 2003 totaled 26,701 mt, representing a 29 percent growth from the corresponding period in 2002. However, low consumption and high stocks resulting from SARS sharply reduced monthly imports beginning in May. Despite this, total 2003 beef imports are forecast to grow by 6 percent to 93,000 mt CWE as the impact from SARS fades away, the economy improves and stocks come down.

Year to year, market shares of major beef suppliers to Taiwan have been stable since 2002. However, from late spring to early autumn, U.S. market share will likely fall sharply since U.S. beef is mostly consumed in the HRI (Hotel, Restaurant and Institutional) sector while beef from other origins dominate the supermarkets.

By September, both imports and U.S. market share are expected to return to historical averages as the HRI sector recovers from SARS and stocks fall. This should be especially promising for quality U.S. beef and should partially reverse 2002 gains in market share made by Australia and New Zealand as consumers shifted their beef intake to the cheaper muscle meat. Any further changes in U.S. market share will depend on prices, exchange rates relative to competitors and any possible reemergence of SARS.

In the long run, market efforts by the newly formed U.S.- New Zealand-Australia-Canada Beef Alliance should increase demand for beef products (Canada joined in 2003). Industry sources believe that imports could rise to more than 80,000 tons as a result of this effort.

Table 2. Taiwan Beef Imports, 2002 and Jan-Apr 2003 (mt)

Supplying Source	U.S.	Canada	Australia	New Zealand	Panama	Paraguay	Total
2002	13,167	3,604	33,227	14,703	329	25	65,055
-02 Share (%)	20%	6%	51%	22%	>1%	>1%	
2003 (Jan-Apr)	5,649	1,360	11,099	8,473	120	0	26,701
-03 Share (%)	21%	5%	42%	32%	>1%	0%	

Source: Board of Foreign Trade

Beef Variety Meats

Although beef variety meat imports should stay high because local demand exceeds supply, trade is not expected to increase very rapidly in 2003 because the Taiwan market generally does not offer high prices for beef offal. Imports should be supported because local demand exceeds supply.

Although imports of variety meats should grow in coming years, Australia and New Zealand will likely take the largest market shares because of their location close to Taiwan. Since offals are a lower cost product than meat, their lower transport costs will give them a major advantage in the Taiwan market. The U.S. market share is forecast to fall from 33 percent in 2001 to 11 percent in 2003.

Imports of beef offal, once subject to an import quota, were liberalized on January 1, 2002 in line with Taiwan's accession to the World Trade Organization (WTO).

Table 3. Taiwan Beef Offal Imports, 2002 and Jan-April 2003 (mt)

Supplying Source	U.S.	Canada	Australia	New Zealand	Others	Total Imports
2002	719	264	2,108	766	32	3,856
-02 Share (%)	19%	7%	55%	20%	<1%	
2003 (Jan-Apr)	177	94	976	308	1	1,556
-03 Share(%)	11%	6%	62%	20%	0%	

Source: Board of Foreign Trade

* Offal imports are not included in the PS&D table.

Tariffs & Trade Policy

Taiwan grants a small preferential tariff to Special Quality Beef (SQB) to encourage imports of SQB versus lower quality beef that competes with Taiwan's own limited production. USDA-graded prime or choice beef and Canadian AAA beef are automatically considered SQB while beef from other sources is dutiable at a higher rate. Upon accession to the WTO on January 1, 2002, Taiwan cut the tariff rate for SQB to NT\$20/kg. It will drop to NT\$10 in 2004. The tariff rate for non-SQB was lowered to NT\$24/kg upon accession and will decline to NT\$10/kg in 2004. The tariff gap between SQB, in which the U.S. dominates, and non-SQB will be narrowed until it no longer exists in 2004, ending a market advantage for U.S. beef.

Tariffs for beef offals in 2003 range from 17.5 to 20 percent. Upon Taiwan's WTO accession, import tariffs for beef offal, formerly ranging from 20 to 50 percent with most falling under the 50 percent category, were lowered to 20-25 percent. They will be phased down to 15 percent on January 1, 2004.

Muscle meat such as shin, shank, short plate, brisket, ribs, and rib finger is classified as shin/shank/intercostal (s/s/i) cuts. The duty of U.S. s/s/i has been bound at NT\$23.8/kg with its definition being detailed in the U.S.-Taiwan Beef Agreement in 1990. This preferential duty applies to U.S. s/s/i only, not to Canadian AAA s/s/i, let alone non-SQB s/s/i. By 2004, s/s/i will also lose its duty advantage.

Table 4. Tariff Comparison for Beef and Beef Offal

Beef Category/Year	2001	2002	2003	2004
Special Quality Beef	NT\$22.1/kg	NT\$20/kg	NT\$15/kg	NT\$10/kg
Non-SQB	NT\$27/kg	NT\$24/kg	NT\$17/kg	NT\$10/kg
SQB-S/S/I	NT\$23.8/kg	NT\$23.8/kg	NT\$16.9/kg	NT\$10/kg
Beef Variety Meats	20-50%	20-25%	17.5-20%	15%
Bovine Bones	50%	35%	35%	35%

Sanitary Regulations

In order to export meat to Taiwan, a country's meat quarantine inspection and health certification system must be reviewed and found acceptable by the Taiwan authorities. Currently, the only countries eligible to supply beef or beef variety meats to Taiwan are: the United States, Australia, New Zealand, Panama and Sweden. Although Taiwan accepted Japan's FMD-free status in late 2001, entry is still banned along with Canadian and most types of European beef because of concerns about Bovine Spongiform Encephalopathy (BSE). Unlike neighboring economies, Taiwan consumers did not associate beef consumption with BSE. Press coverage was rational and short-term, allowing beef exports to recover 2003.

Imports of beef and products from Canada were suspended on May 21, 2003 in response to a BSE detection there. The United States is expected to take half of the Canadian market

share as long as the ban stays in place while New Zealand is poised to take the remaining half. In July 2003, Nicaragua was approved to supply beef and products to Taiwan. Products from Denmark, once a major supplier, are still banned.

The Dairy Sector

The dairy industry, one of the few profitable agricultural sectors in Taiwan, is not expected to contract dramatically following the removal of the fluid milk import ban resulting from WTO entry (see Dairy Annual TW2041). Although some consolidation is expected, Taiwan's dairy industry is expected to successfully compete against milk imports since fresh milk is normally supplied locally and is expensive to ship. The stable market for fluid milk and the limited market share of competing milk powder will also boost prospects. In the years to come, Taiwan's dairy sector will remain stable and will likely begin to buy some seed stock overseas to improve its genetics. Reflecting a more open approach, the old Holstein-only policy has ended. Other breeds now have market access although imports of seed stock still require Council of Agriculture approval, reportedly for "management purposes only".

Marketing

Traditionally, the largest buyers of U.S. beef were in the HRI sector, especially the high-end channels who are supported through exporter sponsored training and promotion programs. The competition from Australia and New Zealand is more intense in the lower end food service sector and in supermarkets.

After the SQB duty differential ends, there will be more competition for U.S. products once favored by the tariff advantage. On the other hand, falling duties are expected to increase trade overall, especially in shoulder cuts or products customized for the Taiwan market. Lower duties may also open the way to exports of less expensive U.S. beef products.

One of the most significant changes in beef marketing in Taiwan has been increasing competition, especially between the U.S., Canada, Australia and New Zealand. As a result, profit margins were reported to be half of levels found 15 years ago. The ability to add value to products through custom cutting or other quality enhancements is a key element to avoiding relentless price competition. U.S. beef exporters have tried to meet the competition in two ways: 1) developing premium brands or a premium image working with key hypermarket chains and 2) developing new, less expensive cuts which compete favorably with Australia and New Zealand beef on flavor, tenderness and price.

While the four major beef suppliers compete strongly, they also have decided to work together in the Beef Alliance to promote overall consumption of beef and grow the market. With per capita beef consumption of only about 3 kg, there is room for growth. By emphasizing the nutritional benefits of beef, especially to women, the Beef Alliance hopes to make it a more regular part of the family menu. This effort will likely take a number of years to bear fruit.

Swine

Table 5. Taiwan Swine Production, Supply and Distribution

PSD Table						
Country	Taiwan					
Commodity	Animal Numbers, Swine				(1000 HEAD)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
TOTAL Beginning Stocks	7165	7165	7000	6793	6900	6800
Sow Beginning Stocks	838	838	795	795	0	800
Production (Pig Crop)	10100	10540	10000	10300	0	10500
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	17265	17705	17000	17093	6900	17300
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	9700	10060	9500	9700	0	9900
Total Slaughter	9700	10060	9500	9700	0	9900
Loss	565	852	600	593	0	600
Ending Inventories	7000	6793	6900	6800	0	6800
TOTAL DISTRIBUTION	17265	17705	17000	17093	0	17300
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Table 6. Taiwan Pork Production, Supply and Distribution

PSD Table						
Country	Taiwan					
Commodity	Meat, Swine					
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Slaughter (Reference)	9700	10060	9500	9700	0	9900
Beginning Stocks	0	0	0	0	0	0
Production	907	935	890	902	0	920
Intra EC Imports	0	0	0	0	0	0
Other Imports	25	31	35	45	0	40
TOTAL Imports	25	31	35	45	0	40
TOTAL SUPPLY	932	966	925	947	0	960
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	932	966	925	947	0	960
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	932	966	925	947	0	960
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	932	966	925	947	0	960
Calendar Yr. Imp. from U.S.	16	18	20	27	0	24
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

The conversion factor used to derive pork meat to carcass weight equivalent (CWE) is 1.43. Imports of pork bones are also included in the PS&D Table at a conversion factor of 1.0. Imports of pork variety meats (offal) are not included in the PSD table. This report includes pork trade under HS 0203. Trade of processed pork, under HS 021011, 021012, 021019, 160241 and 160242, has been negligible (below 500 mt).

Production

In 2003, swine production (fat pigs slaughtered) is estimated at 9.7 million head, down 2 percent from the 2002 total of 9.9 million and 4 percent from the post-FMD outbreak peak of 10.1 million head in 2001. Post forecasts that total 2004 slaughter will increase by 2 percent to 9.9 million. These totals exceed COA's "target" production of 9.3 million.

The most recent pig inventory survey conducted in May 2003 pointed to shrinking herds compared to 2002 -- despite high 2003 pork prices. Despite attempts to increase herd size, production has been undermined by an outbreak of Porcine Circovirus Infection (PCV), which has a high mortality in pigs weighing between 15 to 30 kg. Despite this, high prices and an eventual decline in PCV will likely result in a larger number of breeding and standing pigs in late 2003 and through 2004.

Table 7. Taiwan Hog Population Data

	May 2002	Nov. 2002	May 2003
No. of farms	12,931	13,054	13,022
Pigs on farm	6,920,763	6,793,941	6,747,658
Boars	36,640	36,572	36,586
Sows/gilts	800,603	795,480	797,769
Sows	720,911	711,136	717,395
Gilts	79,692	84,344	80,374
Fattening pigs	6,083,520	5,961,889	5,913,303
Piglets	1,061,922	999,256	1,027,807
Under 30 kg	1,795,175	1,664,814	1,734,710
30-60 kg	1,632,069	1,639,748	1,582,556
Above 60 kg	1,594,394	1,658,071	1,568,230

Source: Council of Agriculture

Long-term Trends

In the long term, the largely efficient Taiwan swine industry will continue to produce pork for the local market, with imports mainly for processing or to supplement occasional shortfalls. Pork production will likely stabilize because of Taiwan's relatively cost-competitive structure, with current production costs estimated at 1.2 to 1.7 times North American and European levels. Although pessimists feared that total herd size would fall to 6.0 million, it seems more likely to stabilize at 6.5 million in the next 3-4 years.

The decline of Taiwan's swine sector is expected to continue because several factors:

1. Realization that export markets lost because of Taiwan's 1997 Foot and Mouth Disease (FMD) outbreak will not recover fully in the near term.
2. High feed prices.
3. Increasing post-WTO accession import competition, especially from imported offals.
4. Rising environmental pressures (especially waste disposal) that will increase costs of production.
5. Retirements of elderly farmers.
6. Increasing pressure to divert land to more valuable uses.

The most serious problem facing Taiwan's swine industry is the loss of export channels resulting from the 1997 FMD outbreak. Before 1997, Taiwan was a net exporter of prime pork meat to Japan with the offal left for domestic consumption. The FMD outbreak caused massive losses from suddenly closed export markets and the costs of depopulating 30 percent of the swine population (3.8 million head). The number of swine farms fell by almost half from 25,300 in 1997 to 13,000 in 2002, with smaller farms failing the most often. Despite this contraction, 43 percent of total farms still have less than 100 head while 25 percent have less than 20. Most swine production is concentrated in the southwest part of Taiwan in Pingtung, Yunlin, Changhua and Tainan Counties.

Although Taiwan has been FMD-free since 2001 and was officially declared FMD-free in 2003 with vaccination by the Office International des Epizooties (OIE), exports are not likely to recover to pre-1997 levels. COA hopes to restart exports to Japan in 2005 although they admit this estimate is quite optimistic and dependent on Taiwan avoiding another FMD outbreak. In addition, Japan will only accept imports from countries that have been declared FMD-free without vaccination, which can only come after a region has been FMD free for a year without vaccination. Even if Taiwan does resume exports, it is very unlikely that trade will return to pre-1997 levels because of a loss in marketing channels and positive consumer awareness in Japan. The most optimistic estimate is that Taiwan will export from 80-100,000 mt by 2005 -- which is down sharply from 270,000 mt in 1996. In addition, hard-won access to foreign markets will remain tenuous because of possible FMD or other disease introductions caused by contraband imports of Chinese swine.

Pig farms have also suffered because of price competition. Post-WTO offal imports have lowered revenue from offal sales by as much as half, from NT\$400 versus NT\$800 per head. This will force pork meat exporters to raise their prices, further reducing their competitiveness. This has created a growing realization that exports will not return to pre-FMD levels, which is causing farmers to stop swine production. Farmers are also aging rapidly, which will also likely reduce the number of farms, especially smaller facilities. After consolidation, production costs should be even lower than at present, leaving the remaining farms more competitive. This contraction in domestic production and the ongoing consolidation of small farms will likely result in increased import demand for pork meat and offal.

Prices

Pig prices, which rose to over NT\$6,000/100 kg (US\$174) in July, are expected to remain high for the next several months. High prices in 2003 will likely spur farmers to expand herd size in 2004 in spite of increasing import competition caused by increasing TRQ sizes for pork belly and offal. The potential for increasing supplies has caused concern in COA that late 2004 or 2005 may bring a collapse in pig prices. This threat of overproduction has also been magnified by a short-term migration of the unemployed into farming.

Table 8. Taiwan Pig Auction Prices (NT\$/100 kg)

Time	CY2001	CY2002	Jan. 2003	Feb. 2003	Mar. 2003	Apr. 2003	May 2003	July 2003
Prices	3,982	4,342	4,951	4,605	4,562	4,647	5,015	6,300+

Source: *Livestock Monthly & Other Industry Sources*

* Roughly NT\$34.5=US\$1 in 2001; NT\$34.5=US\$1 in 2002 and 2003.

In 2002, the break-even point for hog production was slightly more than NT\$4,000/100 kg live weight. Taiwan farmers tend to keep the pigs longer (about 6.5 months) on farm than their U.S. counterparts. The average weight for slaughter pigs has remained at 110 kg/head for years. The direct cost of hog production was NT\$3,898/100 kg in 1999 and NT\$3,676/100 kg in 2000. (source: Animal Technology Institute, Taiwan) In 2001, production costs were estimated at around NT\$3,800/100 kg and auction prices averaged NT\$3,997/100 kg.

Consumption

Taiwan's pork consumption tends to be very stable from year to year, moving in a box around 940,000 to 970,000 tons. Estimated consumption is 947,000 mt in 2003 and forecast consumption is 960,000 mt in 2004. Pork and beef are not close substitutes in the Taiwan market: Changes in pork prices do not affect beef demand significantly or vice versa. Taiwan's pork consumption is around ten times as large as its beef consumption. The latter also tends to be more specialized in the HRI sector.

Trade

Spurred by high Taiwan prices, pork meat imports are expected to total 45,000 mt (CWE) in 2003. Lower prices in 2004 will likely cut imports to 40,000 mt (CWE) despite falling import tariffs. Unlike beef, the vast majority (96 percent from 2002-3) of pork meat consumed in Taiwan is produced domestically. Although post-WTO liberalization and high Taiwan pork prices have resulted in sharply increased pork meat imports in 2002 and 2003, total volumes remain low. Given the competitiveness of Taiwan pork production, trading volumes and market shares are very sensitive to price and imports mostly exist on the margin. According to industry sources, imports can rise above 3,000 tons per month if Taiwan pig auction prices rise above NT\$5000/100 kg. However, high supplier prices can sharply cut trade – even when Taiwan has high prices. For example, if prices of imported products exceed 38 cents/pound, imports will fall by more than half, to around 1,400 tons per month. Trade sources believe that the market for imported pork meat opens when local auction prices rise above NT\$5,500/100 kg.

As another indicator of this market's extreme price sensitivity, U.S. market share has suffered major losses so far in 2003 because of high U.S. prices and lower prices in Canada. Canada has doubled its market share in the last two years at the expense of the U.S.

In contrast, pork offal demand remains strong in 2003 as processors find new ways to utilize variety meats. It seems likely that the offals TRQ will be fully utilized in 2003 but 2004 remains uncertain. As a result of high prices, the U.S. lost market share, but in the next half-year share should recover, as imports of pork offal will continue to supplement the

depressed supply in the Taiwan market. U.S. packers have been modifying their production specifications in order to remain the dominant overseas suppliers to the Taiwan market.

Table 9. Taiwan Pork Meat Imports, 2002 and Jan-April 2003 (mt)

Country	U.S.	Canada	EU*	Hungary	Australia	Total
2002	11,470	7,694	196	0	61	19,421
-02 Share (%)	59%	40%	1%	0%	<1%	
2003 (Jan-Apr)	4,783	4,776	48	111	34	9,752
-03 Share (%)	49%	49%	<1%	1%	<1%	

Source: Directorate General of Customs, Ministry of Finance

- Denmark/Sweden
- **Trade data do not distinguish between imports in and out the TRQs. However, out-of-quota imports are negligible.

Products Entering Under TRQs

Total 2002 TRQ imports were 4,382 mt for pork belly and 9,614 mt for pork offal. (Source: Central Trust of China) According to CTC, the 10,000 mt pork offal TRQ was nearly all filled while the 6,160 mt pork belly TRQ had 1,778 mt unfilled. Belly spare ribs (soft ribs) have been the most popular items in the belly quota. Country breakdown for TRQ imports are given below. Given these trends, it is likely that the 2003 pork offal TRQ will be fully utilized but that pork belly may not. With demand for imported bellies estimated by COA at 10,000 mt and offals at 20,000 mt, the 2004 TRQs may not fill.

Table 10. Pork Belly Imports under TRQ

	U.S.	Canada	Australia	Denmark	Sweden	Hungary	Total Imports	TRQ Size (Annual)
2002	2,431	1,635	60	914	0	0	5,040	6,160
2003 (Jan-May)	1,704	1,708	67	0	125	178	3,782	10,780

Source: Directorate General of Customs, Ministry of Finance

In 2003, the demand for pork offal has been very strong and the TRQ will be fully utilized. The demand for pork belly is less strong but in 2003, encouraged by high domestic pig prices, TRQ may be almost filled. Outside the TRQ, both pork bellies and pork offal are subject to special safeguards (SSG), which allow higher (up to 33 percent) duties under the WTO Agreement on Agriculture. According to the calculation of the Council of Agriculture (COA), the trigger level for pork belly imports for 2003 is 13,475 mt and that for pork offal is 23,437 mt. The 2003 high out-of-quota duty (55% for pork offal and 287.5% for pork offal) will definitely discourage any imports after quota is filled, let alone the duty surcharge under the SSG.

Table 11. Pork Offal Imports under TRQ

	U.S.	Canada	Australia	Denmark	Japan	Sweden	Hungary	Total Imports	TRQ Size (Annual)
2002	7,703	1,138	70	617	28	0	0	9,556	10,000
2003 (Jan-May)	5,708	1,457	266	1,034	22	52	142	8,681	18,750

Source: Directorate General of Customs, Ministry of Finance

Trade in pork bones from January to April 2003 was up sharply from 2002 levels, which totaled only 943 mt. From January to April 2003, trade totaled 1,809 mt, including 1,110 mt from Canada, 146 mt from Denmark, 63 mt from Australia, 78 Sweden; 63 Australia, 4 mt from Hungary -- and 417 mt from the U.S.

Policy

Upon Taiwan's WTO accession, the former global quotas for pork bellies and pork offal were transformed into Tariff Rate Quota (TRQ). In 2003, the quotas sizes are 10,780 mt for bellies and 18,750 mt for offal. Tariff rates were also lowered with WTO entry. In 2003, quotas for pork bellies and pork offal increased and tariff rates declined as detailed in Table 10. In 2005, the TRQs will be phased out and duties bound at 12.5% for pork meat and 15% for pork offal. However, SSG duties will come into effect when trigger levels are reached. For more details on SSG, please see TW3011.

Table 12. Taiwan Pork Belly and Pork Offal TRQ

	Pork Bellies			Pork Offal		
	2002	2003	2004	2002	2003	2004
Tariff Rate (%)	15	13.7	12.5	25	20	15
TRQ Qty. (mt)	6,160	10,780	15,400	10,000	18,750	27,500
Out-of-Quota Rate (%)	60	55	50	310	287.5	265

All TRQ items have been moved to a new Chapter 98 of Taiwan's Tariff Schedule. Pork products that are not subject to TRQ or enter outside of the TRQ (and are subject to out-of-quota rates) are classified under the original tariff classifications in Chapter 2 (for uncooked meat), Chapter 5 (for animal offal) and Chapter 16 (for processed meat). TRQs are open to all WTO members meeting Taiwan's quarantine requirements, except products from the People's Republic of China, which are banned.

TRQ Regulations

On August 8, 2002, Taiwan announced its 2003 TRQs, which total 10,780 mt for pork bellies and 18,780 mt for offals. The application period ran from October 7-9, 2002. On October 23, 2002, the 2003 TRQ for pork belly was allocated through a lottery. Importers or exporters registered with Taiwan's Board of Foreign Trade are eligible to apply. The 2003

TRQ performance bond (NT\$2,150/mt for pork belly and NT\$2,200/mt for pork offal) must be paid by June 1, 2003, which is two months earlier than under the 2002 TRQ mechanism.

Quotas are tradable. Under the terms of Taiwan's WTO accession agreement, TRQ certificates are valid from January 1 to September 1 and can be extended to December 31 upon presentation of a signed contract. Arrival dates can be postponed to December 31, 2003 if a signed contract is presented to the Central Trust of China (CTC) before the deadline (application made to CTC from August 1 to 25, 2003). Unused TRQs will be reallocated in September.

Non-TRQ Duties

Effective January 1, 2002, Taiwan redefined "pork offals" to include only hocks, feet, skirt, guts (including intestines and rectum) and stomachs. Remaining pork variety meats were liberalized with WTO entry. Items such as kidneys, tails and hearts no longer require a quota and are effectively liberalized.

The out-of-quota rates for pork bellies fell to 55 percent in 2003 and will decline to 50 percent in 2004. Out-of-quota rates for pork offal are 287.5 percent in 2003 and will be 265 percent in 2004. Imports will be liberalized in 2005 and tariffs for all pork offals will go down to 15 percent. A tariff comparison for other pork products not subject to TRQ is listed below:

Table 13. Tariff Comparison for Pork Imports Not Subject to TRQs (%)

Pork Category/Year	2002	2003	2004
Carcass, Hams, Shoulders and Cuts	15	13.7	12.5
Other Pork Cuts	14	13.2	12.5
Non-TRQ Variety Meats	25	20	15
Pork Bones	35	35	35
Pork Tendon*	25	20	15

* Imports of pork tendon were liberalized in 2002 upon WTO entry, meaning that quota certificates are no longer required. However, the import duty for this item was raised from 15% to 25% in 2002. To Post's knowledge, this is the only agricultural item subject to a higher tariff after Taiwan's WTO accession.

Special Safeguards

Both pork bellies and pork offal are subject to a Special Safeguards (SSG) regime, based on Article 5 of the WTO Agreement on Agriculture. According to the calculations of the Council of Agriculture (COA), the trigger level for pork belly imports is 12,886 mt and for pork offal it is 21,376 mt. Although demand for pork offal is strong, the high out-of-quota duty will strongly discourage imports above the TRQ level. Lower out-of-TRQ duties make it possible but still unlikely that pork bellies will exceed SSG trigger levels in 2003. Given the low 2002 TRQ and high out of quota rates, it is unlikely that imports will rise above SSG trigger levels

until 2004 when the TRQs rise above them. Although liberalization in 2005 could likely trigger SSG duties, some industry sources do not believe import demand will be strong enough to trigger a SSG response.

Sanitary Regulations

In order to export meat to Taiwan, a country's meat quarantine inspection and health certification system must be reviewed and found acceptable by the Taiwan authorities. Taiwan currently allows imports of pork/pork offal from the U.S., Australia, New Zealand, Canada, Denmark, Japan and Hungary. A Dutch request to export pork to Taiwan in 2001 was rejected after a European Foot-and-mouth disease (FMD) outbreak although other EU countries have applied for import permission. Korea's application for FMD-free recognition was also denied in December 2001. South Korean pork offal is regarded by Taiwan importers as potentially very competitive if allowed entry. Paraguay was also disqualified in 2002 because of FMD.

Countries not currently approved to export meat products to Taiwan must formally apply for approval. The approval process requires bilateral negotiations and on-site inspections of production and processing facilities, which can take several years to complete. FMD concerns are likely to keep competitive South Korean pork products off the Taiwan market for at least two-to-three years. Disease problems complicated by cross-strait political issues will likely keep PRC pork off the Taiwan market for an extended period (see below).

Checkoff Program

Starting January 1, 2003, Taiwan collected a NT\$10/head fee to fund a checkoff program for price stabilization, research and marketing. COA plans to expand this to other livestock and poultry sectors. There were no further details available on how the money will be spent. The program ran into difficulties as some farmers and legislators objected to the checkoff, despite participation by the vast majority of farmers.

Cross-Straits Trade and Investment

Currently Mainland Chinese pork, pork offals, and pork products are banned entry into Taiwan. Taiwan is expected to gradually relax these administrative controls, but the Mainland will still face SPS hurdles in exporting to Taiwan. Even if permitted, imports from the Mainland would face other barriers such as the lack of a working relationship between China and Taiwan's quarantine services and the lack of direct shipping routes. Taiwan authorities have also banned investment by Taiwan companies in Mainland livestock and meat packing operations although there may well be covert investment in these sectors.

Taiwan Swine Sector Investment

In recent years, uncertainties over the effects of post-WTO trade liberalization have kept Taiwan's swine industry from investing in imported breeding stock. Now that Taiwan is a WTO member and swine farming has remained profitable, the industry will begin to buy seedstock overseas to improve Taiwan's swine genetics. In the first half of 2002, Taiwan imported breeding stock from Canada. Taiwan previously allowed only 4 lines of purebred pigs, Hampshire, Yorkshire, Duroc and Landrace, to be imported for breeding purposes. This

limit has reportedly been lifted in line with WTO accession. However, imports of breeding pigs still require a Council of Agriculture approval, reportedly for management purposes only. CY2002 live pig imports only totaled only 25 head but between 300 and 500 head are expected in 2003 with even higher numbers expected in 2004.

Marketing

Since pork meat demand in Taiwan depends so strongly on the prices of locally produced pork, export prospects for pork meat can vary greatly from year to year. When Taiwan does import, buyers prefer carcasses because U.S. cuts are different from what is used in Taiwan. In addition, competitors sometimes give money to importers for "promotion", which can undermine U.S. competitiveness. As for offals, U.S. pork ears are popular this year and U.S. bone products doing well in the market. Note: Offals for retail sale mostly go through wet markets rather than supermarkets.

Internet Resources

Taiwan's tariff schedule is available at <http://www.doca.mof.gov.tw>. After Taiwan's accession to the World Trade Organization (WTO) on January 1, 2002, a new chapter, Chapter 98, was established in Taiwan's Customs Tariff Schedule to cover all products which are permitted entry under Tariff Rate Quota (TRQ). However, this chapter is used to tabulate current tariff rates and trade restrictions for the TRQ items. Actual trade statistics are available at <http://www.trade.gov.tw>. Most Taiwan (.tw) domain websites are only in Chinese, but the amount of English content is increasing.

<http://www.coa.gov.tw/english/index.htm> for agricultural statistics and general agricultural information (in English).

<http://www.baphiq.gov.tw> for Taiwan quarantine requirements (English version available).

<http://www.trade.gov.tw/english/index.htm> for trade statistics, trade rules, TRQ bidding rules and general trade information (English version available).

<http://www.wto.org> The WTO's website for information about Taiwan's WTO accession.

<http://www.docamof.gov.tw> for tariff reduction schedule (soon in English) and TRQ implementation measures.

<http://www.ctoc.com.tw> for Central Trust of China's TRQ announcement (Chinese only).

<http://www.dgoc.gov.tw> for Special Safeguards application (Chinese only).

<http://www.naif.org.tw> for pig auction prices and pork retail prices (Chinese only).